

The impact of inflation

The global pandemic and the Russian invasion of Ukraine have both caused significant disruption to the world's supply chains, e.g. food, energy, and transport. This has meant the price you have to pay for most goods and services has gone up significantly.

When the general price of goods and services increases in an economy, we call this inflation. We should expect a low level of inflation in a healthy and growing economy. However, it is always important to consider the effects of inflation when making or reviewing your financial plan.

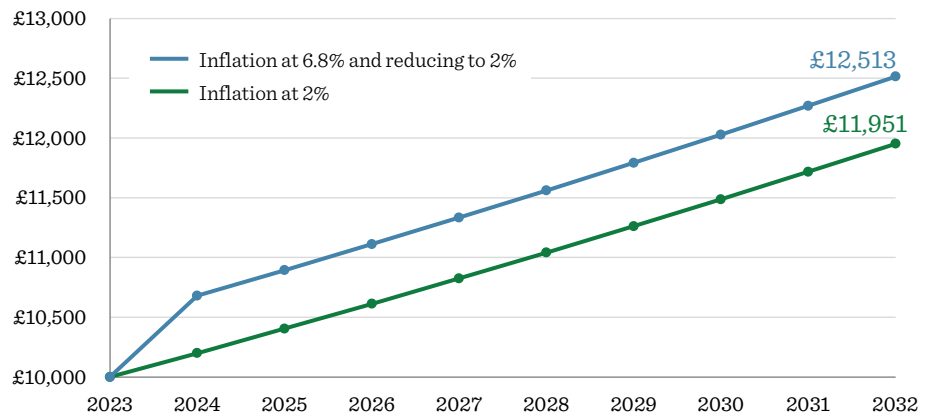
Over the long term, inflation, has averaged around 2.5%, yet in recent times, year-on-year inflation has soared and stands at 6.8% to the end of July 2023. Whilst this figure has reduced since it's peak in October 2022 of 11.1%¹, this level of inflation can be devastating for your hard-earned savings. So, when you look at what your cash savings will be worth in the future, don't be fooled into thinking they will have the same purchasing power as they do today.

For people with over £250,000 of investable assets, inflation remains the biggest perceived risk to wealth².

Inflation may peak, but prices will remain high

High levels of inflation, even for a short period, can have powerful consequences. The chart on the right shows the price increase of a £10,000 basket of goods over the next ten years under two different scenarios: if inflation returns to the Bank of England's target rate of 2% next year and if inflation had stayed at 2%.

As you can see, after only one year of high inflation, higher prices are likely to remain for the long term, with prices unlikely to reduce.

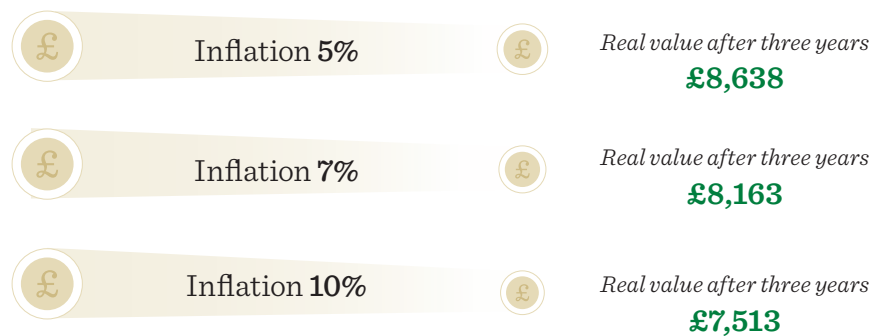


Source: Quilter Investors as at 16 August 2023. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment.

What does this mean for £10,000 in savings?

Your financial plan should always include access to enough cash for emergencies and for your short-to medium-term cash needs. Beyond that, holding your savings in cash does not provide any protection against inflation.

The example to the right shows how quickly the value of £10,000 in cash would be eroded in real terms if inflation remained high for just three years.

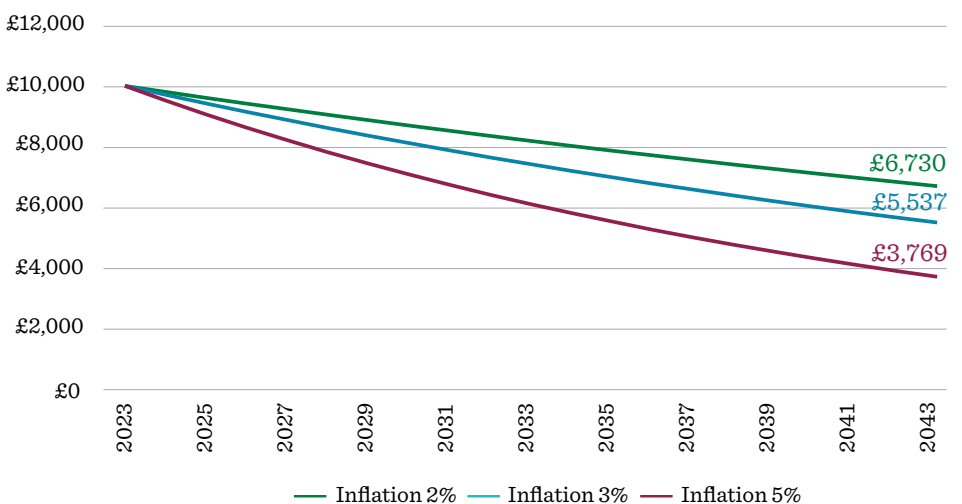


The long-term dangers of inflation

Savers often underestimate how much damage inflation can do over the long term, even at modest levels.

The chart to the right demonstrates how inflation of just 3% can reduce the real value of cash by almost half over 20 years. If you are saving for your retirement, you need to be aware of how corrosive this can be to your cash savings.

If you already have a financial plan in place, this reinforces the benefit of sticking to it, if you do not, then you should take action now.



Source: Quilter Investors as at 30 June 2023. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment.



What action can you take?

Investing over the medium to long term can typically mitigate the effects of inflation and your financial adviser can recommend a selection of assets that are appropriate for the level of risk you are able to take. Once you've made your financial plan, remaining invested for the long term is key to beating inflation.

The chart below shows how £10,000 invested in global equities over the past 30 years could be worth more than four times as much than if it had been held in cash (after adjusting for inflation).



Source: Quilter Investors as at 30 June 2023. Total return, adjusted for inflation, in pounds sterling over period 30 June 1993 to 30 June 2023. Based on an initial investment of £10,000. Global equities is represented by the MSCI All Country World Index and cash is represented by the Bank of England Base Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an index.



Finding the right balance

Your financial adviser can develop a plan to help you achieve your financial goals, including a suitable approach to help reduce the impact of inflation. Ensuring you hold the right balance of cash and equities for your needs and risk profile is an important part of that conversation. So, if you have savings in bank accounts, cash ISAs, premium bonds, or even under the mattress, you should consider:

- Q** Do you have more cash savings than you need for emergencies and your short- to medium-term cash needs?

- Q** Are you comfortable that your cash savings have little protection against inflation?

- Q** Will your cash savings enable you to meet your long-term savings goals or is there a better alternative?

Speak to your financial adviser today to find out more about the solutions available to you.

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